

FORMOSA PRSONIC

EXPLANATORY NOTES TO THE INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2015

The figures have not been audited

1. Accounting policies

The interim financial report is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standard ("MFRS") 134 "Interim Financial Reporting" and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2014.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the most recent audited annual financial statements for the financial year ended 31 December 2014, except for the adoption of the following:

MFRSs/ Amendments/Interpretations	Effective date
Amendments to MFRS 1, <i>First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)</i>	1 July 2014
Amendments to MFRS 3, <i>Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)</i>	1 July 2014
Amendments to MFRS 8, <i>Operating Segments (Annual Improvements 2010-2012 Cycle)</i>	1 July 2014
Amendments to MFRS 13, <i>Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)</i>	1 July 2014
Amendments to MFRS 116, <i>Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)</i>	1 July 2014
Amendments to MFRS 124, <i>Related Party Disclosures (Annual Improvements 2010-2012 Cycle)</i>	1 July 2014

The initial application of the aforesaid applicable standards, amendments or interpretations are not expected to have any material financial impacts to the current and prior periods financial statements upon their first adoption.

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2. Audit qualification

The audit report on the financial statements for the financial year ended 31 December 2014 was not qualified.

3. Seasonal or cyclical factors

Demands for speaker systems and its related products are generally seasonal and are affected by economic conditions in countries in which the products are sold.

4. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income and cash flow for the current financial year.

5. Changes in estimates of amount reported

There were no significant changes in estimates of amount reported in prior interim period or prior financial year that have a material effect in the current financial year.

6. Issuance and repayment of debt and equity securities

There were no issuance and repayment of debt and equity securities, share buy-back, share cancellation, shares held as treasury shares and resale of treasury shares for the financial year to date.

7. Dividend paid

	Current year to date RM'000	Preceding year to date RM'000
First interim single tier of 3.0 sen per ordinary share of RM0.50 each for the financial year ended 31 December 2014 (31 December 2013 : 6.0 sen per ordinary share)	<u>7,421</u>	<u>14,841</u>

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8. Segmental reporting

The Group's operations by geographical segments were as follows:-

	Malaysia RM'000	(Discontinued operations) China RM'000	UK/US RM'000	Elimination RM'000	Total RM'000
9-month ended 30-9-2015					
Revenue					
External	203,623	137,106	1,578	-	342,307
Inter-segment sales	785	11,982	-	(12,767)	-
Total revenue	<u>204,408</u>	<u>149,088</u>	<u>1,578</u>	<u>(12,767)</u>	<u>342,307</u>
Results					
Segment results	38,495	3,141	(638)	(28,702)	12,296
Finance cost	(96)	(26)	-	-	(122)
Share of result in an associate	2,256	-	-	-	2,256
Profit before tax					<u>14,430</u>
Tax expense					<u>(2,875)</u>
Profit for the period					<u>11,555</u>
9-month ended 30-9-2014					
Revenue					
External	209,558	157,932	2,492	-	369,982
Inter-segment sales	13,257	6,686	-	(19,943)	-
Total revenue	<u>222,815</u>	<u>164,618</u>	<u>2,492</u>	<u>(19,943)</u>	<u>369,982</u>
Results					
Segment results	20,965	1,123	(1,302)	(9,874)	10,912
Finance cost	(59)	(32)	(3)	-	(94)
Share of result in an associate	(541)	-	-	-	(541)
Profit before tax					<u>10,277</u>
Tax expense					<u>(1,756)</u>
Profit for the period					<u>8,521</u>

As disclosed in Note 20 of this interim reports, the Company entered into a sale and purchase agreement to dispose of the entire equity interest in FP Group Limited and its subsidiary.

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9. Valuation of property, plant and equipment

The valuations of property, plant and equipment have been brought forward without any amendments from the previous annual financial statements which are deemed at cost upon the adoption of MFRS.

10. Subsequent events

There were no material events subsequent to 30 September 2015 that have not been reflected in the interim report.

11. Changes in composition of the Group

There was no change in the composition of the Group for the current financial year to-date under review.

12. Contingent liabilities or contingent assets

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet date.

13. Review of performance

For the period ended 30 September 2015, the Group registered higher profit before tax of RM14.4 million compared to profit before tax at RM10.3 million in the previous year's corresponding period mainly due to higher sales achieved by its Malaysia's operations as a result of the acquisition of manufacturing assets and equipment in Sungai Petani in March 2015 and higher share of profit in an associate. The Group also benefited from favourable foreign exchange rate resulted from appreciation of US dollar against the Malaysian Ringgit.

The Group's China manufacturing operations which contributed RM137.1 million in sales and RM3.1 million in profit before tax for the period ended 30 September 2015 were disposed of as disclosed in Note 20 of this interim report.

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14. Comparison with previous quarter's results

The Group's profit before tax was significantly higher at RM12.2 million in Q3 2015 from RM3.9 million in Q2 2015 as a result of 30% increase in sales to RM150.0 million from RM115.5 million and foreign exchange gain.

Excluding the discontinued operations, the Group's profit before tax was also significantly higher at RM11.6 million in Q3 2015 from RM2.1 in Q2 2015 as a result of 31% increase in sales from RM70.0 million to RM91.7 million and foreign exchange gain.

15. Prospects for the current financial year

Barring unforeseen circumstances, the Directors expect profitable results for the financial year ending 31 December 2015. The Directors remain cautious on the business prospects given slowing economic growth in the emerging markets and the intensifying competition.

16. Deviation from profit forecast and profit guarantee

Not applicable.

17. Notes to the statement of comprehensive income (Continuing Operations)

	Individual		Cumulative	
	Current Quarter 30/9/2015 RM'000	Preceding Year Quarter 30/9/2014 RM'000	Current Quarter 30/9/2015 RM'000	Preceding Year Quarter 30/9/2014 RM'000
Profit for the period is arrived at after charging / (crediting):				
Income from short term funds	(320)	(439)	(1,063)	(993)
Interest income	(45)	(50)	(151)	(133)
Interest expenses	17	13	77	40
Depreciation and amortization	1,674	1,921	4,831	5,102
Foreign exchange gain	(4,490)	(102)	(5,393)	(344)
Derivatives (gain) / loss	-	147	(370)	80
Reversal of impairment loss on trade receivables	-	(33)	-	(470)
(Gain)/loss on disposal of property, plant and equipment	-	(80)	39	(276)
Gain on disposal of a subsidiary	-	(3,041)	-	(3,041)

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18. Discontinued operations classified as held for sale

(i) An analysis of the results of the discontinued operations are as follows :

	Individual		Cumulative	
	Current Quarter 30/9/2015 RM'000	Preceding Year Quarter 30/9/2014 RM'000	Current Quarter 30/9/2015 RM'000	Preceding Year Quarter 30/9/2014 RM'000
Revenue	61,745	72,620	149,089	169,214
Cost of sales	(54,498)	(68,669)	(131,591)	(155,614)
Gross profit	7,247	3,951	17,498	13,600
Other income	3,183	1,877	5,201	3,104
Distribution expenses	(3,748)	(2,919)	(7,586)	(7,120)
Administrative expenses	(1,669)	(1,051)	(4,543)	(3,482)
Other expenses	(4,378)	(3,286)	(7,293)	(4,788)
Profit from operations	635	(1,428)	3,277	1,314
Finance costs	(8)	(12)	(26)	(34)
Profit before tax	627	(1,440)	3,251	1,280
Tax expenses	-	-	-	-
Profit for the period	627	(1,440)	3,251	1,280

Included in profit before tax from discontinued operations are :

Interest income	-	(9)	(27)	(44)
Income from short term funds	(16)	(48)	(212)	(151)
Depreciation and amortisation	914	1,220	2,242	3,933
Foreign exchange (gain) / loss	(2,012)	824	(2,573)	(243)

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18. Discontinued operations classified as held for sale (continued)

(ii) An analysis of the assets for the discontinued operations classified as held for sales are as follows :

	As at 30/9/2015 RM'000
Assets	
Property, plant and equipment	8,004
Inventories	18,376
Trade and other receivables	66,119
Cash, bank balances and deposits	22,512
Assets of disposal company classified as held for sale	<u>115,011</u>
Liabilities	
Trade and other payables	<u>62,356</u>
Liabilities of disposal company classified as held for sale	<u>62,356</u>
Net assets of disposal company classified as held for sale	<u>52,655</u>

(iii) The cash flow attributable to the discontinued operations are as follows :

	As at 30/9/2015 RM'000
Operating activities	8,842
Investing activities	(497)
Financing activities	(53,411)
Net cash outflow	<u>(45,066)</u>

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19. Taxation

	Individual		Cumulative	
	Current Quarter 30/9/2015 RM'000	Preceding Year Quarter 30/9/2014 RM'000	Current Quarter 30/9/2015 RM'000	Preceding Year Quarter 30/9/2014 RM'000
In respect of current period:-				
- Income tax	3,261	701	3,693	2,212
- Deferred tax	(278)	37	(818)	(456)
	2,983	738	2,875	1,756

The effective tax rates of the Group for the current quarter and financial year to-date is lower than the statutory tax rate mainly due to different tax rate in foreign jurisdiction and certain income which is not taxable.

20. Corporate proposals

On 31 July 2015, the Company announced that it and a subsidiary company, Winmax Holdings Group Limited (“Winmax”), had on 30 July 2015 entered into the following agreements:

- (i) A Sale and Purchase Agreement (“SPA”) between Winmax as Vendor, the Company as Guarantor and Tonly International Limited (“TIL”) as Purchaser in respect of the disposal by the Vendor of 5,000,000 ordinary shares of USD1.00 each credited as fully paid and representing the entire equity share capital of FP Group Limited (“FPG”) for a consideration of USD14,302,166 (equivalent to approximately RM59,353,988) subject to adjustments, if any;
- (ii) A Deed of Guarantee between the Company as Guarantor and TIL as Purchaser in respect of the obligations of the Vendor under the SPA (“Deed”).

This transaction is expected to be completed in Q1 2016.

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21. Group borrowings (interest bearing) and debt securities

The Group does not have any borrowings and debt securities as at 30 September 2015.

22. Material litigation

There was no pending material litigation since the last annual balance sheet date.

23. Dividend

The Board has on 10 April 2015 paid a first interim single tier tax exempt dividend of 3.0 sen per ordinary share of RM0.50 each in respect of the financial year ended 31 December 2014 (31 December 2013: 6.0 sen).

The Board has not recommended any dividend for the current quarter.

24. Basic Earnings per share

	Individual		Cumulative	
	Current Quarter 30/9/2015	Preceding Year Quarter 30/9/2014	Current Quarter 30/9/2015	Preceding Year Quarter 30/9/2014
Net profit attributable to equity holders of the parent (RM'000)				
- continuing operations	8,418	5,424	7,082	6,757
- discontinued operations	627	(1,440)	3,251	1,280
	9,045	3,984	10,333	8,037
Weighted average number of shares ('000)	247,358	247,358	247,358	247,358
Basic earnings per share (sen)				
- continuing operations	3.4	2.2	2.9	2.7
- discontinued operations	0.3	(0.6)	1.3	0.5
	3.7	1.6	4.2	3.2

* Marginal amount

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25. Realised and Unrealised Profits

	As At End Of Current Quarter 30/9/2015 RM'000	As At End Of Preceding Quarter 30/6/2015 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	91,039	107,175
- Unrealised	332	(1,681)
	91,371	105,494
Total share of retained profits from an associate:		
- Realised	665	(1,142)
- Unrealised	(493)	(401)
	172	(1,543)
	91,543	103,951
Consolidation adjustments	20,808	(645)
Total Group retained profits	112,351	103,306